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RUEHTN/AMCONSUL CAPE TOWN 5167
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DEPT FOR AF/S/RMARBURG; AF/EPS; EB/IFD/OMA
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND
TREASURY FOR OAISA/RALYEA/CUSHMAN
USTR FOR COLEMAN

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E.O. 12958: N/A
TAGS: ECON EFIN EINV ETRD EMIN EPET ENRG BEXP KTDB SENV
PGOV, SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER DECEMBER 21, 2007 ISSUE

¶1. (U) Summary. This is Volume 7, issue 51 of U.S. Embassy Pretoria's South Africa Economic News weekly newsletter.

Topics of this week's newsletter are:
- Zuma Voted ANC President
- Economy Holds Steady after Zuma Wins Election
- Coal Prices Sharply Increase
- Eskom Receives Substantial Rate Increase
- New MIDP Not To Be Released Until August
- SA Joins WTO Case on US Farm Subsidies
- SA May Terminate Anti-Dumping Duties
- Inflation to Peak Above 8 Percent
- Retail Sales Slow To Five-Year Low

End Summary.

Zuma Voted ANC President

¶2. (U) Jacob Zuma was elected President of the African National Congress (ANC) at an ANC national conference on December 18th, ousting current ANC President Thabo Mbeki. Zuma's win of 2,329 votes against 1,505 votes for Mbeki leaves the party facing the need to restore unity amid unprecedented rivalry for the office. Zuma, whose reputation has been shrouded in controversy following years of legal battles with charges of corruption and rape, will now govern the ANC party while Mbeki continues to serve as President of South Africa. (Business Day, December 19, 2007)

Economy Holds Steady after Zuma Wins Election

¶3. (U) According to the top three global rating agencies, Fitch, Moody's and Standard and Poor's, South Africa's fiscal and monetary policy framework will stay in place and its credit ratings have not been put at risk by Zuma's election as ANC president. Standards noted that it does not expect a sharp or immediate change in policies. Moody's said that Zuma's efforts to ease investor concern in recent months stood him in good stead. Fitch and Moody's upgraded their outlook on South Africa to "positive" this year, while S&P maintained a "stable" outlook, taking a "wait and see approach" due to the uncertainty about the ANC succession and the possibility of continued political turmoil ahead of the 2009 national presidential elections. (Business Day, December 20, 2007)

Coal Prices Sharply Increase

¶4. (U) Coal for shipment from Richard's Bay, site of the world's largest export terminal for the fuel, has been rising in price as Indian power companies replenish stockpiles. The price has risen 84 percent so far this year, and last week advanced 2.7 percent to reach $93.75 per ton, according to McCloskey data. India will need 500-million tons of coal in the year to March 2008, with an estimated domestic production of only 461 million, said PS Battacharyya, chairman of Coal India. The Richard's Bay terminal is owned by South Africa's biggest coal exporters, including Anglo American, BHP Billiton and Xstrata. More than 25 percent of the coal burned in Europe is shipped through Richard's Bay. (Business Day, December 18, 2007)

Eskom Receives Substantial Rate Increase

¶5. (U) State power company Eskom has received permission to levy a 14.2 percent electricity tariff hike for the 2008-2009 financial year from National Energy Regulator of SA (Nersa). This is below
Qyear from National Energy Regulator of SA (Nersa). This is below
the 18.7 percent increase that Eskom requested, but is still significantly higher than the 6.2 percent that Nersa had previously approved. Nersa added that Eskom's application for a further 17 percent tariff hike for the 2009-2010 financial year would be considered in September 2008 when the next round of three-year price increases is determined. Nersa's public consultation paper on Eskom's proposed tariff increases also states that electricity tariffs would increase by double digits from now until 2019. Municipal tariff increases would also increase by an average of 12

percent from July 1 next year. Eskom needs the tariff increases to both cover rising fuel costs and fund its R150 billion ($22.3 billion) revised capital investment program over the next five years. The program proposes to increase the country's power generating capacity from slightly less than 40GW to 80GW by 2025. Approximately 20GW of the 40GW increase is expected to come from a fleet of pressure water reactor (PWR) nuclear power plants. The tariff increases will place additional pressure on inflation, which is already under pressure from higher food, fuel and wage costs, growing capacity constraints brought about by the sustained growth of the economy and the government's large infrastructure program, and rising inflation expectations. Business Unity SA said the 2008-2009 increase would add 0.5 percent to CPIX (consumer inflation excluding mortgage costs) next year. The tariff increases will also create another argument for the South African Reserve Bank's Monetary Policy Committee to raise the policy interest rate once again when it meets on January 31. Finally, the announced intention to increase tariffs over the next 12 years will make South Africa a less attractive destination for foreign investment, especially energy-intensive users such as aluminum and steel plants, given that South Africa's relatively low tariffs had been a major attraction for foreign investors. (Business Day, December 21, 2007)

New MIDP Not To Be Released Until August

¶6. (U) The new Motor Industry Development Programme (MIDP) will not be released for at least another seven months. The existing MIDP expires in 2009 while the new program will run until 2010. The Department of Trade and Industry (DTI) provided hints that the new MIDP will likely take the form of a production subsidy. The specific level of support is to be determined through a cost-benefit analysis that will be announced once the details of the new MIDP are finalized by August. Currently, the motor industry contributes 4 percent to gross domestic product and employs about 39,000 people. DTI said that in light of the achievements of the MIDP, the government will maintain reasonable support of the industry.

(Business Day, December 19, 2007)

SA Joins WTO Case on US Farm Subsidies

¶7. (U) South Africa has joined a WTO case seeking to challenge U.S. agricultural subsidies. As a major corn producer, South Africa has significant interest in the case, the first it has ever joined since the WTO was created. A local trade lawyer said that the likelihood of the case going against the US was "quite good," given the success Brazil had litigating against the U.S. on cotton subsidies. The original claim was filed by Canada and Brazil, but a number of countries, including South Africa, have joined as third parties. (Business Day, December 20, 2007)

SA May Terminate Anti-Dumping Duties

¶8. (U) South Africa's International Trade Administration Commission (ITAC) has recommended the termination of anti-dumping duties on Q(ITAC) has recommended the termination of anti-dumping duties on several products, including several from the U.S. (Lysine, Acetaminophenol, suspension PVC, and chicken meat portions). ITAC's recommendation is based on a recent South Africa Supreme Court of Appeal decision, which ruled that sunset reviews needed to be initiated five years from the date the duties retroactively went into effect, not the date the notice of duties was issued. The court found that several ITAC sunset reviews were initiated after the five-year newly established deadline. ITAC's proposal to terminate the duties is open to industry comments prior to ITAC's issuance of a final recommendation. (ITAC Notice No. 1773 of Government Gazette No. 30602)

Inflation to Peak Above 8 Percent

¶9. (U) CPIX inflation (CPI minus mortgage interest) rose to an annualized rate of 7.9 percent in November, well above the South African Reserve Bank's 3 percent-6 percent target range. Many

analysts expect CPIX to peak above 8 percent early next year. (Business Day, December 19, 2007)

Retail Sales Slow To Five-Year Low

¶10. (U) Retail sales slowed to a five-year low with an annual growth rate of 1.5 percent in October, providing evidence that South African Reserve Bank (SARB) interest rate hikes are hitting consumers. The drop in retail sales will off-set some of the pressure to hike the policy interest rate when the SARB's Monetary Policy Committee meets on January 31. (Business Day, December 20, 2007)

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